NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying summary of the City of Franklin's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be reviewed as an integral part of the accompanying financial statements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of the significant accounting policies follows:

A. REPORTING ENTITY

This report includes all of the funds of the City of Franklin. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Discretely presented component units would be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. This report does not contain any discretely presented component units.

Blended Component Unit

The Community Development Authority (Authority) was created by the City in 1992 to serve as a financing vehicle for a certain Tax Incremental Financing (TIF) development within the City. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and manage certain TIF development projects for the benefit of the City and its citizens. The Authority's operations are included in the governmental activities of the government-wide financial statements and in a TIF District capital projects fund. The Authority follows accounting policies of the City. Financial information on the Authority (TIF District #2) are contained in Schedules 9 & 10 of this report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenue and other nonexchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided.

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate all indirect expenses to functions in the statement of activities.

Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund Financial Statements

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds with the latter being excluded from government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or nonmajor funds within the governmental and proprietary fund statements. An emphasis is placed on major funds within the governmental and proprietary categories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

a. Total assets, liabilities, revenue, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

c. In addition, any other governmental or enterprise fund that the City believes is important to financial statement users may be reported as a major fund.

Major Governmental Funds

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – accounts for resource accumulation from taxes, special assessments and other revenue along with payments made for principal and interest on long-term debt other than enterprise fund debt.

TIF Districts Fund – accounts for resource accumulation from tax increments and other revenue of the TIF Districts along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIF Districts. Each TIF District is a sub fund of the TIF Districts Fund.

Major Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Water Utility Fund – accounts for operations of providing water services to City residents and bills for those services.

Sanitary Sewer Fund – accounts for the operations of providing sanitary sewer services for City residents and bills for those services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

In addition the City reports:

NonMajor Governmental Funds

Special Revenue Funds – account for the proceeds of specific revenue sources (other than major capital projects) that are legally or policy restricted to expenditures for specified purposes. The funds include Library Operating, Library Auxiliary, Master Plan, Donation, Civic Celebrations and Grant.

Capital Projects Funds – account for resources accumulated to be used for the purchase of equipment, street replacement, acquisition of land and the construction of capital improvement projects. The funds include Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Utility Improvement and Development.

Other Fund Types

Internal Service funds – account for the payment by the City for active employees of group health and dental charges for services and stop loss insurance charges and the billing of departments or agencies of the City on a cost-reimbursement basis for the services received.

Fiduciary funds – account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and/or governmental units. The fiduciary funds include a property tax fund, an other agency fund that records the agency activity for emergency government, monitoring and siting activities funded by others and a post employment benefits trust fund for retiree group health costs.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenue, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year that they are levied for.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

Government-Wide Financial Statements (continued)

Taxes receivable for the following year are recorded as receivables and deferred revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. Special assessments are recorded as revenue when earned. Receivables are recorded as revenue when services are performed.

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's Water Utility and Sanitary Sewer fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recorded when it is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded the year levied as receivable and deferred revenue and are recognized as revenue the next year when services financed by the levy are provided.

Intergovernmental aids and grants are recognized as revenue in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City are recorded as receivables. Amounts not available or received prior to the entitlement period are recorded as deferred revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

Fund Financial Statements (continued)

Special assessments levied for benefits to property owners for installation of sanitary sewers, water mains, roads, and other improvements are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred revenue.

Revenue susceptible to accrual include property taxes, room taxes, public charges for services and interest. Other general revenue such as permits, fines and forfeitures, licenses and miscellaneous revenue are recognized when received or when measurable and available under the criteria mentioned above.

Deferred revenue is reported on the governmental funds balance sheet. Deferred revenue arises from taxes levied in the current year that are for subsequent year's operations. For governmental funds financial statements deferred revenue arises where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary and fiduciary fund financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Agency fund financial statements are reported using the accrual basis of accounting and the economic resources measurement focus.

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the Water and Sanitary Sewer funds are charges to customers for sales and services provided. The rates billed in the Water Utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan Sewage District.

Operating expenses for proprietary funds include the cost of sales and services, administration and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

All Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures/ expenses during the reporting period. Actual results could vary from those estimates.

D. ASSETS, LIABILITIES AND NET ASSETS OR FUND BALANCE

1. Cash and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The City of Franklin maintains two investment policies. The first covers all funds except fiduciary funds for retiree health purposes. The objective of this policy is to generate current income, consistent with safety and reasonable risk as defined under prudent person rules. As operating reserves the quality, liquidity and maturity structure of the portfolio are most important. The investment policy:

a. Requires a minimum rating at time of purchase of AA by either Moody's or Standard & Poor's.
b. Limits an issuer to 10% or less and asset classes to 35% or less of the market value of the portfolio with the exception of U.S. Government Treasury, Agency and securities that have the full faith guarantee of the U.S. Government.
c. Specifies a minimum amount of cash equivalents be maintained, an average life of the portfolio not exceeding 2 ½ years and no individual issue with a maturity exceeding 5 years at the date of purchase.
d. Limits investments highly sensitive to market changes through its duration and diversification policies.
e. Prohibits the investment in foreign owned securities.
f. Limits derivative investments to those with a final maturity of seven years or less.

In addition the City's investment policy restricts allowable investments to investments that follow state statutes that limits investments to:

a. Time deposits in any credit union, bank, savings bank, trust company or loan association authorized to transact business in the state and maturing in three years or less.
b. The Local Government Investment Pool (LGIP).
c. Bonds or securities issued or guaranteed by the federal government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

1. Cash and Investments (continued)

d. Bonds or securities of any county, city, drainage district, technical college district village, town or school district of the State of Wisconsin. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
e. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
f. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
g. Repurchase agreements with public depositories, with certain conditions.

The second investment policy is for its fiduciary fund for retiree health purposes. The policy:

a. Requires the investment to be in a section 115 trust for retiree health purposes.
b. Requires management by an outside investment manager.
c. Requires compliance with the "prudent person" standard.
d. Requires asset allocation policy that considers the liability stream of benefits, the relationship to current and projected assets, the historical performance of capital markets and the perception of future economic conditions.
e. Primary investment objectives are safety, diversification and return.
f. Allows investment in various asset classes.
e. Limits investment in equities after five years to 75% of total assets to be invested. During the first five years equity investments may be up to 100% of the assets.

The City manages the various risks in its cash and investments as follows:

a. Custodial credit risk – investments are held by trustee or third party custodian.
   – deposits in excess of FDIC insurance limits are maintained in the State LGIP or collateralized bank balances in amounts at least 75% of the year end cash balances.
b. Credit risk – securities purchased need to have a AA or better investment rating.
c. Concentration of credit risk - issuer or asset class not to exceed 10% of the market value of the portfolio with the exception of U.S. issued securities.
d. Interest rate risk – managed by limiting the length of maturity and the average life of the portfolio.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

1. Cash and Investments (continued)

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of City accounting funds is allocated based on average investment balances.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw funds in total on one day's notice. At December 31, 2009, the fair value of the City's share of LGIP assets was substantially equal to the amount reported in these statements.

2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the municipality, taxes are collected for and remitted to the state government, county government, local school districts, technical college district and metropolitan sewerage district. Taxes for all other governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying fiduciary funds statement of fiduciary net assets.

Property tax calendar – 2009 tax roll:

Lien date and levy date	December 2009
Tax bills mailed	December 2009
Payment in full, or	January 31, 2010
First installment due	January 31, 2010
Second installment due	March 31, 2010
Third installment due	May 31, 2010
Personal property taxes in full	January 31, 2010
Final tax settlement with County	August 20, 2010
Tax deed by County – 2008 Delinquent real estate taxes	October 2012

Accounts receivable have been shown net of an allowance for uncollectible accounts. No provision for uncollectible accounts receivable has been made for enterprise funds because of their right by law to place delinquent bills on the tax roll.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

2. Receivables (continued)

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Long term interfund loans are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and the proprietary activities are reported in the government-wide financial statements as "internal balances".

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

3. Inventories and Prepaid Items

Governmental fund inventory items, except fuel inventory, are charged to expenditures when purchased. The fuel inventory is recorded at cost on a first in first out basis using the consumption method of accounting. Year end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for sale. Material and supplies on hand at year end are considered immaterial.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Mandatory segregation of assets are presented as restricted assets. Such segregation is required by bond agreements and other external parties. Current liabilities payable from restricted assets are so classified. The excess of restricted assets over current liabilities will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

5. Capital Assets

Government-Wide Statements

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than $1,000 for general capital assets and $10,000 for infrastructure assets with estimated useful life of two years or more. Capital assets are recorded at historical cost or estimated historical cost if actual amounts are not available. Donated capital assets are recorded at estimated fair value at the date of donation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

5. Capital Assets (continued)

Government-Wide Statements (continued)

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type of follows:

Buildings and improvements	20-50 Years
Machinery and Equipment	2-30 Years
Water and sewer systems	20-100 Years
Infrastructure	30-90 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same in the government-wide statements.

6. Other Assets

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

7. Compensated Absences

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

7. Compensated Absences (continued)

All vested compensatory time, severance pay and vacation pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements and are payable with expendable available resources.

Payments for vested compensatory time, severance pay and vacation pay will be made at rates in effect when the benefits are used. Accumulated vested compensatory time, severance pay and vacation pay liabilities are determined on the basis of current salary rates and include salary related payments.

8. Long-term Obligations/Conduit Debt

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premium) is reported as other financing sources and payments of principal and interest are reported as expenditures. The proprietary fund accounting is the same as it is in the government-wide statements.

For the government-wide and proprietary fund statements, issuance costs, bond premiums and discounts are deferred and amortized over the life of the issue using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net assets.

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRB,s do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements.

9. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the government funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

9. Claims and Judgments (continued)

If they are not to be liquidated with expendable available financial resources, no liability is recognized in governmental fund financial statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

10. Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding any unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources, as they are needed.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance is that portion of fund balance that is not available for the subsequent year’s budget due to legal restrictions or resources which are not available for current spending. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

11. Comparative data

The basic financial statements include comparative data for the prior year for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. This comparative data is not at the level of detail required for a presentation in conformity with general accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2008 from which the data was derived.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "other long term assets that are not available to pay for current period expenditures and therefore are deferred in the funds". The details of this difference are as follows:

Special assessments	$2,277,777
Accrued interest receivable	57,102
	$2,334,879

Capital assets used in government funds are not financial resources and, therefore, are not reported in the funds.

Land	$24,664,244
Buildings	23,924,476
Machinery and equipment	14,934,355
Infrastructure	85,791,859
Construction in progress	151,662
Less: Accumulated depreciation	(34,190,437)
Adjustment for capital assets	$115,276,159

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (continued)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net assets.

General obligation debt	$45,165,000
Deferred amounts for premiums	259,009
Unamortized debt issue costs	(181,969)
Unamortized deferred refunding amouns	(459,152)
Compensated absences	1,561,617
Net pension obligation	110,182
Accrued interest	597,536
Combined adjustment for long-term liabilities	$47,052,233

B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances include a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government wide statement of activities. One element of that reconciliation explains that "revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds". The details of this difference are as follows:

Special assessment levies	$528,080
Accrued interest receivable	57,102
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$585,182

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states that "Governmental funds report the effects of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of the differences are as follows:

Amortization of issuance costs	$(34,345)
Amortization of deferred refunding amounts	(95,451)
Amortization of premium	68,533
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$(61,263)

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds'". The details of this difference are as follows:

Compensated absences	$(22,745)
Net pension obligations	6,129
Accrued interest payable	158,930
Net adjustments to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$142,314

Another element of that reconciliation states that "revenue in the governmental funds that provides current financial resources but have been previously recorded as revenue in the statement of activities". The details of this difference are as follows:

Special assessment collections	$506,671
Net adjustments to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$506,671

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1 C with the exception of encumbrances and tax equivalent from the Water Utility. Actual (budgetary basis) expenditures presented reflect actual (GAAP) expenditures adjusted for expenditures liquidated under the prior period budget and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue present the tax equivalent from the Water Utility as tax revenue while the GAAP basis statements present this item as a transfer.

A budget has been adopted for the General, Debt Service, Library, Capital Outlay, Equipment Replacement, Capital Improvement, Street Improvement, Sanitary Sewer and Water Utility funds. Budgets have not been formally adopted for other funds.

The budget amounts presented include any amendments made during the year. The City may authorize transfers of budget amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the common council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year were not material. Budgets are adopted at the function level of expenditure.

B. LIMITATIONS ON THE CITY'S TAX LEVY

As part of Wisconsin's Act 28 (2009), new legislation was passed that continues the limitation of the City's future tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the City's equalized value due to new construction, or 3.0%% for the 2009 levy collected in 2010. Unused tax levy may be carried forward into the following year. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit is set to expire after the 2010 levy.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

The City maintains a cash and investment pool that is utilized by all funds. Each fund's portion of this pool is displayed on the statement of net assets and balance sheet as cash and investments of the City. In addition, investments are separately held by several of the funds.

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for interest bearing accounts and unlimited for non or low interest bearing accounts.

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

The City's bank accounts are also insured by the State of Wisconsin Deposit Guarantee Fund in the amount of $400,000. However, although the fund had reserves available at December 31, 2009, the future availability of resources to cover the losses cannot be projected because provisions of the 1985 Wisconsin Act 35 provided that the amount in the fund will be used to repay public depositors for losses until the appropriation is exhausted at which time the fund is abolished.

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by FDIC and State of Wisconsin Deposit Guarantee Fund insurance. This coverage expired on February 15, 2009.

The City maintains a collateral arrangement with its main bank to provide collateralization in excess (about 20%) of deposits maintained at the bank. The collateral is maintained at the Federal Reserve and the City receives monthly reports of the collateral in place. The collateral balance at December 31, 2009 was $44,242,243. Cash and investments as shown on the December 31, 2009 City of Franklin Statement of Net Assets are subject to the following risks:

	Carrying Value	Bank & Investment Balances	Risks
Cash and demand deposits	$ 16,717,127	$ 3,900,203	Custodial
Money market funds	86,335	86,335	Credit and interest rate
U.S. treasuries and agencies	7,358,983	7,358,983	Credit, interest rate and concentration of credit
Asset backed securities	769,378	769,378	Credit and interest rate
Corporate bonds	2,979,401	2,979,401	Credit, interest rate and concentration of credit
Equities	1,198,784	1,198,784	Custodial
Local Government Investment Pool	33,000,549	33,000,549	Credit
Total	$ 62,110,557	$ 49,293,633	

Reconciliation to the financial statements is shown below:

Per Statement of Net Assets	
Primary Government:	
Unrestricted cash and investments	$ 13,627,635
Restricted cash and investments	227,388
Per Statement of Fiduciary Net Assets - Agency Funds	46,981,634
- Post Employment Benefits Trust	1,273,900
	$ 62,110,557

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

A. CASH AND INVESTMENTS (continued)

Custodial Credit Risk For deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City. As of December 31, 2009 of the City's total bank balances of $3,900,203, $2,015,923 was uninsured and uncollateralized and therefore exposed to custodial credit risk. For Investments – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City does not have any investments that were exposed to custodial credit risks at December 31, 2009.

Credit Risk Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. The City's policy requires a minimum credit rating of AA at time of purchase. The City's fixed income investments subject to credit risk include treasuries, agencies, corporate asset backed securities, corporate bonds and money market funds and were rated by Moody's Investor Service.

As of December 31, 2009, 24.7% of the investments were in rated fixed income investments and subject to credit risk. The ratings were as follows: AAA at 73.4%, AA2 at 3.3%, AA3 at 1.6%, A1 at 9.2%, A2 at 3.2% and A3 at 9.3%. Fixed income investments include corporate securities (asset backed and bonds) at 8.3%, treasury and agency securities at 16.2% and money market funds at 0.2%. The Local Government Investment Pool was 72.7% of the investments and is not rated but is subject to credit risk and equities held in trust at 2.6% make up the remainder of the investments.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to a large investment position in a single issuer. As of the December 31, 2009 no issue other than the Local Government Investment Pool, treasury or agency securities had a position of greater than five percent of the portfolio.

Interest Rate Risk Interest rate risk is the risk that rising interest rates will have an adverse impact on the fair value of the investments in the portfolio. The longer the maturities in the portfolio the greater the risk of loss is in portfolio value.

As of December 31, 2009 the City's investments were as follows:

	Fair	Investment Maturity in years		
Investment Type (in thousands)	Value	Less than 1	1 - 5	Over 5
Money market funds	$ 86,335	$ 86,335	$ -	$ -
U.S. treasuries and agencies	7,358,983	436,122	6,922,861	-
Asset backed securities	769,378	225,539	543,839	-
Corporate bonds	2,979,401	1,360,898	1,618,503	-
Local Government Investment Pool	33,000,549	33,000,549	-	-
Total	$ 44,194,646	$ 35,109,443	$ 9,085,203	$ -

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

B. RECEIVABLES

Receivables consist of accounts, taxes, notes and special assessments from citizens and others. Receivables are reported net of uncollectible amounts. The reserve for bad debts, principally for personal property taxes and ambulance revenue, was $101,808 at December 31, 2009. Other than the note receivable and special assessment receivables, all other receivables are expected to be collected within one year.

The City has a note receivable with a local business in the amount of $8,785,000. Terms of the note call for semi-annual payments of interest at 1.95% and annual principal ranging from $625,000 to $670,000 until maturity on February 28, 2014, at that time the remaining balance will be due.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and can not be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred and unearned revenue reported in the financial statements were as follows:

	Unavailable	Unearned	Total
Governmental Funds:			
Property taxes receivable	$ -	$ 28,357,925	$ 28,357,925
Interest receivable	57,102	-	57,102
Special assessments not yet due	2,277,777	-	2,277,777
Total deferred/unearned revenue for governmental funds	$ 2,334,879	$ 28,357,925	$ 30,692,804

C. RESTRICTED ASSETS

In accordance with the City's ordinance enacting a sewer user charge system and regulations of the Department of Natural Resources, the Sanitary Sewer Fund – an Enterprise Fund, incorporated an equipment replacement charge as a component of the rate structure to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources. Revenue generated from this charge are accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2009 is $227,388.

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

Governmental Activities	Beginning Balance	Additions	Dispositions	Ending Balance
Capital assets not depreciated:				
Land	$ 24,648,453	$ 15,791	$ -	$ 24,664,244
Construction in progress	1,624,809	151,662	(1,624,809)	151,662
Total capital assets not depreciated	26,273,262	167,453	(1,624,809)	24,815,906
Capital assets depreciated:				
Buildings & improvements	23,069,585	854,891	-	23,924,476
Machinery & equipment	14,223,837	1,143,891	(433,373)	14,934,355
Infrastructure	81,281,205	4,510,654	-	85,791,859
Total capital assets depreciated	118,574,627	6,509,436	(433,373)	124,650,690
Less: Accumulated depreciation for:				
Buildings & improvements	5,839,619	535,805	-	6,375,424
Machinery & equipment	8,350,215	838,756	(433,373)	8,755,598
Infrastructure	17,668,113	1,391,302	-	19,059,415
Total accumulated depreciation	31,857,947	2,765,863	(433,373)	34,190,437
Net capital assets depreciated	86,716,680	3,743,573	-	90,460,253
Govemmetal Activities Capital Assets, Net of Accumulated Depreciation	$ 112,989,942	$ 3,911,026	$ (1,624,809)	$ 115,276,159

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	$ 145,836
Public safety	621,490
Public works	1,668,694
Health & human services	10,349
Culture & recreation	317,460
Conservation & development	2,034
Total governmental activities depreciation expense	$ 2,765,863

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

D. CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Dispositions	Ending Balance
Business-type Activities				
Capital Assets not depreciated:				
Land	$ 426,384	$ 3,500	$ -	$ 429,884
Construction in progress	611,614	4,229	(559,614)	56,229
Total capital assets not depreciated	1,037,998	7,729	(559,614)	486,113
Capital assets depreciated:				
Buildings & improvements	2,322,250	-	-	2,322,250
Machinery & equipment	1,975,076	632,511	(71,875)	2,535,712
Infrastructure	105,178,334	1,480,317	(158,434)	106,500,217
Total capital assets depreciated	109,475,660	2,112,828	(230,309)	111,358,179
Less: Accumulated depreciation for:				
Buildings & improvements	727,298	73,672	-	800,970
Machinery & equipment	1,325,143	118,013	(71,874)	1,371,282
Infrastructure	17,618,731	1,285,315	(60,565)	18,843,481
Total accumulated depreciation	19,671,172	1,477,000	(132,439)	21,015,733
Net capital assets depreciated	89,804,488	635,828	(97,870)	90,342,446
Business-type Activities Capital Assets, Net of Accumulated Depreciation	$ 90,842,486	$ 643,557	$ (657,484)	$ 90,828,559

Depreciation expense was charged to functions as follows.

Business-Type Activities:	
Water	$ 833,300
Sewer	643,700
	$ 1,477,000

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables at December 31, 2009 are as follows:

Receivable Fund	Payable Fund	Amount
Governmental funds:		
General	Water Utility	$ 65,551
Enterprise funds:		
Sanitary Sewer	Water Utility	45,183
Subtotal - Fund Financial Statements		110,734
Less: Fund eliminations		45,183
Total internal balances - Government-Wide Statement of Net Assets		$ 65,551

The principal purpose of these interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. In all cases amounts are repaid within one year.

For the statement of net assets, interfund balances owed within the governmental activities or business – type activities are netted and eliminated.

The City of Franklin provides short and long term advances to its TIF Districts. The amounts advanced are either from proceeds of a borrowing or from fund reserves. They are used to enable the TIF Districts to carry out approved project plans and may be replaced in the future by direct borrowing. The TIF Districts interest rate is based upon the interest rate incurred by the Debt Service Fund on it's borrowings or the reinvestment rate available to other funds. The advances will be repaid as the proportionate principal amounts in the Debt Service Fund are due or when TIF District resources are available.

Receivable Fund	Payable Fund	Amount	Amounts not due within one year
Governmental funds:			
Debt Service	TIF Districts	$ 2,018,000	$ 1,618,000
Capital Projects-Development	TIF Districts	2,645,000	2,645,000
Capital Projects-Equipment Replacement	TIF Districts	800,000	-
Internal Service-Self Insurance	TIF Districts	600,000	-
Less: Fund eliminations		(6,063,000)	
Total long-term advances - Government-Wide Statement of Net Assets		$ -	

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

Generally, transfers are used to (1) move revenue from the funds that collect them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers during the year ended December 31, 2009 were as follows:

Transfer In	Transfer Out	Amount
General	Enterprise - Water Utility	$ 920,666
	Enterprise - Sanitary Sewer	2,614
Debt Service	Capital Projects - Development	23,190
Special Revenue:		
Civic Celebrations	General	25,900
Grant	Donations	723
Capital Projects Funds:		
Capital Improvements	Capital Projects - Utility Improvement	412,119
	Capital Projects - Development	405,459
	TIF Districts	351,541
Utility Improvement	Capital Projects - Capital Improvement	86,824
Subtotal - Fund financial statements		2,229,036
Less: Fund eliminations		(1,305,756)
Less: Government-wide eliminations		(1,024,006)
Total transfers - Government-wide Statement of Activities		$ (100,726)

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS

General Obligation Debt

Long-term liabilities for the year ended December 31, 2009 were as follows:

	Balance 12/31/08	Additions	Deletions	Balance 12/31/09	Amounts due within one year
Governmental Activities					
General obligation debt	$ 56,080,000	$ -	$ 10,915,000	$ 45,165,000	$ 5,275,000
Unamortized premium	327,542	-	68,533	259,009	68,535
Deferred refunding amounts	(554,593)	-	(95,451)	(459,142)	(83,529)
Sub-total	55,852,949	-	10,888,082	44,964,867	5,260,006
Compensated absences					
Accrued vacation pay	375,930	844,575	838,934	381,571	381,571
Accrued severance pay	1,021,457	85,531	77,266	1,029,722	-
Accrued compensatory time	141,485	216,481	207,642	150,324	150,324
Total compensated absences	1,538,872	1,146,587	1,123,842	1,561,617	531,895
Government activities Long-term liabilities	$ 57,391,821	$ 1,146,587	$ 12,011,924	$ 46,526,484	$ 5,791,901

All general obligation notes and bonds payable are backed by the full faith and credit of the City. The notes and bonds will be retired by future property tax levies, special assessment collections and designated landfill revenue.

The governmental activities compensated absences accrue to and are paid from the City's General Fund.

Business-type Activities					
Compensated absences					
Accrued vacation pay	$ 37,373	$ 45,867	$ 46,082	$ 37,158	$ 37,158
Accrued severance pay	80,633	5,803	6,358	80,078	-
Accrued compensatory time	4,138	3,318	4,338	3,118	3,118
Business-type activities Long-term liabilities	$ 122,144	$ 54,988	$ 56,778	$ 120,354	$ 40,276

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

Details of general obligation notes and bonds payable are as follows:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31
General obligation promissory notes						
	8/15/05	3.75-3.90	3/ 1/07-15	3/1& 9/1	$ 10,000,000	$ 9,000,000
	1/1/06	3.75-3.90	3/ 1/09-11	3/1& 9/1	10,000,000	7,700,000
	1/3/07	4.95	3/ 1/08-14	3/1& 9/1	10,000,000	8,785,000
	8/26/08	3.00-3.50	3/ 1/09-14	3/1& 9/1	10,000,000	9,800,000
General obligation bonds						
	4/15/01	4.3-5.40	3/ 1/02-21	3/1& 9/1	10,000,000	155,000
General obligation refunding bonds						
	1/3/07	3.80	3/ 1/08-21	3/1& 9/1	9,925,000	9,725,000
						$ 45,165,000

Annual principal and interest payments to maturity on general obligation notes and bonds payable are as follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2009				$ 45,165,000
2010	$ 5,275,000	$ 1,688,989	$ 6,963,989	39,890,000
2011	7,395,000	1,440,330	8,835,330	32,495,000
2012	4,675,000	1,208,524	5,883,524	27,820,000
2013	5,640,000	1,014,820	6,654,820	22,180,000
2014	12,365,000	641,526	13,006,526	9,815,000
2015 - 2019	7,490,000	1,038,120	8,528,120	2,325,000
2020 - 2021	2,325,000	89,205	2,414,205	-
	$ 45,165,000	$ 7,121,514	$ 52,286,514	

The City's statutory debt limit and margin of indebtedness at December 31, 2009 are $195,632,130 and $150,467,130, respectively.

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM OBLIGATIONS (continued)

In prior years the City defeased certain maturities of the April 15, 2001 general obligation bonds by placing the proceeds of new debt in irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, trust account assets and liability for the defeased debt is not included in the City's financial statements. At December 31, 2009 $9,470,000 of debt outstanding has been defeased. The defeased debt is callable on March 1, 2011.

Conduit Debt Obligations

Ten series of Industrial Revenue Bonds originally issued with an aggregate principal amount of $114,485,000 are outstanding with a December 31, 2009 balance of $106,554,056.

G. NET ASSETS/FUND BALANCES

Governmental Activities

Government activities net assets reported on the government-wide statement of net assets at December 31, 2009 include the following:

Invested in capital assets, net of related debt	
Land	$ 24,664,244
Construction in process	151,662
Other capital assets, net of accumulated depreciation	90,460,253
Less: related long term debt outstanding	(28,820,121)
Total invested in capital assets	86,456,038
Restricted for:	
Library	458,216
Emergency medical services	10,598
Utility improvement	147,317
Development	406,562
Donations	132,236
Grants	136,896
Total restricted	1,291,825
Unrestricted	2,024,676
Total governmental activities net assets	$ 89,772,539

NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

G. NET ASSETS/FUND BALANCES (continued)

Governmental Fund Balances

Reported on the fund financial statements at December 31, 2009 include the following:

Reserved - Major Funds:		
General Fund - Inventories, prepaid items and encumbrances	$	25,927
Debt Service Fund - subsequent year debt service		60,900
Debt Service Fund - advances to other funds		2,018,000
TIF Districts Fund - contractual obligations and debt service		9,152,000
Reserved - Non Major funds:		
Special Revenue Funds:		
Library services including prepaid expenses		458,216
Emergency medical services, donations and grants		279,730
Capital Projects Funds:		
Equipment replacement & Development - Advances to other funds		3,445,000
Capital Outlay and Equipment replacement - encumbrances		1,000
Capital Improvement - contracual obligations & encumbrances		151,000
Development		406,562
Utility Improvement		147,317
Total reserved	$	16,145,652
Unreserved Major Fund - General Fund		
Designated for working capital	$	3,570,000
Designated for subsequent year expenditures		400,000
Undesignated		1,108,711
Total General Fund		5,078,711
Unreserved Major Fund - TIF Districts Fund		
Undesignated (Deficit)		(5,734,740)
Unreserved Non Major Funds:		
Special Revenue funds:		
Designated for master plan activities		107,778
Designated for civic celebration activities		57,570
Total Special Revenue funds		165,348
Capital Projects funds:		
Designated for Capital Outlay		338,817
Designated for Equipment Replacement		774,621
Undesignated for Capital Improvement		(103,154)
Designated for Street Improvement		216,687
Total Capital Projects funds		1,226,971
Total Unreserved funds	$	736,290

NOTE 5 – OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLANS

Wisconsin Retirement System

All eligible protective City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All such permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 5.9% of their salary (5.0% for protective occupations with social security, and 3.2% for protective occupations without social security) to the plan.

Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the System for the year ended December 31, 2009 was $7,591,158 and the employer's total payroll was $13,497,798. The total required contribution paid entirely by the employer for the year ended December 31, 2009 was $1,495,458, or 19.7% of covered payroll. Of the total required contribution, 100 percent was contributed for the current year. Total contributions for the years ended December 31, 2008 and 2007 were $1,404,643 and $1,275,929, respectively which equal to the required contributions for each year.

The System provides protective employees who retire at or after age 53 with 25 years or more of service or age 54 with less than 25 years of service are entitled to receive retirement benefits. Protective employees may retire at age 50 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final Average Earnings is the average of the protective employee's three highest year's earnings. Protective employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

NOTE 5 – OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Public Works Employees Pension Plan

Plan Description

The City is also a participant in the City of Franklin Public Works Employees' Pension Plan, a non-contributory single employer defined benefit pension plan covering eligible public works employees. The assets of this Plan are administered by Principal Life Insurance Company. An annual financial report may be obtained by writing to the plan administrator at Principal Financial Group, P.O. Box 9693, Des Moines, IA 50306-9396.

Employees attaining the age of 60 are entitled to annual benefits of 1.98% of average compensation multiplied by the number of complete years of service subsequent to January 1, 1956. Average compensation is defined as the monthly total pay plus salary deferrals, compensation and overtime received for the three consecutive years out of the ten latest years which gives the highest average. Employees may retire early and receive reduced benefits at age 55 with at least ten years of service.

Disability benefits equivalent to expected benefits at normal retirement date are paid until normal retirement date, death or recovery. If an active employee dies, his or her beneficiary receives a lump-sum cash payment equal to the participant's accumulation at date of death or an annuity benefit deferred until participant's earliest retirement date.

If an employee terminates his or her employment with the City, the employee has the option of accepting either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations. An employee becomes 50% vested after five years of service and 100% vested after ten years.

Employees do not make pension contributions. The City contributes all amounts necessary to fund the pension plan, using the aggregate actuarial cost method.

Funding Policy

The City's funding policy has been to provide yearly contributions at actuarially determined rates that, expressed as a percentage of covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During 2008, the City changed the administration contract under which the plan is administered. The impact of the change is that there are more investment options available and as a result the annual pension cost was lower. The reduction related to the interest rate assumption change occurred in the 2008 valuation with the impact of other assumption changes occurring in the 2009 actuarial valuation.

NOTE 5 – OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Public Works Employees Pension Plan (continued)

Annual Pension Cost

For 2009, the City's required contribution of $207,962 was determined during a January 1, 2009 actuarial valuation using the aggregate actuarial cost method. As a result during the year ended December 31, 2009, contributions totaling $207,962 were accrued. This resulted in the net pension obligation being reduced by $6,129. The accrued employer contribution amount represented 13.7% of current year payroll compared to the 8.1% anticipated in the 2008 actuarial report. The primary reason for the increase was the 2008 investment return.

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. The amortization period is closed and has 12 years remaining. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets ranging of 8.0% compounded annually, (b) projected salary increases of 4.00% per year compounded annually, attributable to inflation. The assumptions do not include post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	$ 207,962	100%	$ 110,182
12/31/2008	99,781	111%	116,311
12/31/2007	252,283	47%	133,158

The following table shows the components of the City's annual pension cost for the year, the amount actually contributed to the plan and changes in the City's net pension obligation:

Annual required contribution	$ 207,962
Interest on net pension obligation	9,305
Adjustment to annual required contribution	(15,434)
Annual pension expense	201,833
Contributions made	(207,962)
Decrease in net pension obligation	(6,129)
Net pension obligation - beginning of year	116,311
Net pension obligation - end of year	$ 110,182

NOTE 5 – OTHER INFORMATION (continued)

A. DEFINED BENEFIT PENSION PLANS (continued)

Public Works Employees Pension Plan (continued)

Annual Pension Cost

			Funding progress			
	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) - Aggregate	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2009	$ 4,358,231	$ 4,468,413	$ 110,182	98%	$ 1,521,581	7%

There were minor changes in actuarial assumptions during the valuation year ended January 1, 2009 reflecting the change made in the administration contract in 2008. In addition a change was made to adopt a smoothing method for recognizing gains and losses over a five year period. The multi year trend information is located in the required supplementary information immediately following the notes to the financial statements.

B. DEFINED CONTRIBUTION PLAN

Based on City ordinances all eligible City of Franklin non-protective employees (except public works employees) participate in the City of Franklin Defined Contribution Plan (the "Plan"). The Plan assets are administered by the Principal Life Insurance Company.

Employees after completing six months of service with the City are eligible to participate. The Plan requires the City to make periodic contributions to each participant's account equal to 10% of such participant's annual compensation. Employees may but are not required to make contributions. A participant's accrued benefit for City contributions is 100% vested and non forfeitable upon death, normal retirement, early retirement or permanent and total disability as defined in the Plan. If employment is terminated for any other reason, each participant's accrued benefit vests at various percentages, based on years of service. During 2009, the City made the required contribution amounting to $405,414, or 10% of covered payroll and employees made $6,959 in additional voluntary contributions to the plan. The City may make amendments to the Plan.

C. POST EMPLOYMENT HEALTH CARE BENEFITS

The City of Franklin administers a single employer defined benefit post employment benefit plan through a trust. The City of Franklin Post Employment Benefits Trust is accounted for on the accrual basis of accounting and presented as a fiduciary fund. Separate financial statements are not prepared for the trust. Retiree and City contributions are recognized in the period in which the contributions are due.

NOTE 5 – OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

City of Franklin eligible full time employees meeting minimum age and service requirements may receive group health care benefits at a reduced cost during the period from their normal retirement date until they reach age 65. This results in an other post employment benefit (OPEB) obligation for those groups. These groups commonly have higher medical costs than anticipated in the blended premium rates that is referred to as an implicit rate subsidy.

Contribution requirements are established by either City ordinance or collective bargaining and may be amended only by the groups establishing the requirements. The City's periodic contribution is determined and fixed at the time of retirement. The retiree pays the balance of the periodic blended premium. The eligibility for the benefit follows:

Employee Group	#	City Amount	Age	Years Service
Non-represented	37	75% of Premium at Retirement	62	20
Police	57	75% of 2007 Premium	53	15
Dispatch	14	75% of 2005 Premium	62	20
Fire	43	75% of Premium at Retirement	53	20
DPW	31	75% of Premium at Retirement	60	15

The City's annual other post employment benefit (OPEB) expense is calculated based upon the annual required contribution (ARC) of the City. An actuarial calculation by an actuary was used to calculate the ARC and related information using the measurement method required by GASB Statement No. 45 for employers with 200 or more total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the trust and changes in the City's net OBEB obligation for retiree health benefits:

Annual required contribution	$ 591,351
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	591,351
Contributions made	(591,351)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ -

NOTE 5 – OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the trust and the net OPEB obligation for the current and prior year were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2009	$ 591,351	100.0%	$ -
12/31/2008	703,713	100.0%	-

Funding progress:

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Actuarial Accrued Liability (AAL) Projected unit credit	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2009	$ 580,028	$ 5,989,535	$ 5,409,507	10%	$ 12,137,498	45%

The multi year trend information is located in the required supplementary information immediately following the notes to the financial statements. The projection of future benefits for an ongoing benefit involves estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funding status of the trust and required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented immediately following the footnotes, presents multi-year trend information that shows whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The above schedules of employer contributions present trend information about the amounts contributed to the trust by the City in comparison to the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period of thirty years.

Projections of benefits for financial reporting purposes are based upon the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the City and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

NOTE 5 – OTHER INFORMATION (continued)

C. POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

The trust's financial statements are prepared using the accrual basis of accounting. Retiree and City contributions are recognized in the period that contributions are due. The City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable. Investments are reported at fair value with the valuation determined by the independent custodian of the assets.

The following significant assumptions were made:

The actuarial valuation uses the projected unit credit actuarial cost method.

The ARC was calculated using the level percentage of payroll method, amortizing costs over 30 years. The remaining amortization period at December 31, 2009 was 28 years.

Based upon the expected return of the City of Franklin Post Employment Benefits Trust under the investment policy adopted for the Trust, a discount rate of 7% was used.

The actuarial value of the trust assets is determined using techniques that spread the impact of short term volatility over a five year period.

Group health charges for actives and retirees were used as the basis for calculation of the present value of total benefits to be paid.

The expected healthcare trend rate of increase in group health charges was based upon the recent experience of the City of Franklin self funded health care program. A rate of 0% for year one, 9.7% for year two, reduced to an ultimate rate of 5.2% after nineteen years, was used.

The expected long term payroll growth rate was assumed to be 3%.

Rates of retirement, mortality and termination for reasons other than retirement and death are from the "Wisconsin Retirement System 2003-2005 Experience Study".

Marital status at retirement was assumed to be 75% with a spouse or dependants.

D. CONTINGENCIES AND COMMITMENTS

The City at times is party to claims and legal proceedings. Although the outcome of such matters in not presently determinable, it is the opinion of City management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

NOTE 5 – OTHER INFORMATION (continued)

D. CONTINGENCIES AND COMMITMENTS (continued)

The City has no material outstanding contractual commitments other than disclosed in these financial statements relating to various Public Works projects and equipment purchases at December 31, 2009.

The City receives impact fees for new development projects. The fees are to be used to fund specific projects within a specific period of time. In the event the projects are not completed or the time period elapses, the City will be required to refund the impact fees to owners of property that the fees were originally charged.

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits and other miscellaneous revenue. The State of Wisconsin provides a variety of aid and grant programs that benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget process. The State of Wisconsin is currently experiencing budget problems and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

E. RISK MANANGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, and workers' compensation claims that the City carries commercial insurance. No significant reductions in insurance coverage occurred for any risk of loss in the past year, and settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for losses in excess of $50,000 per year per individual. Liabilities are reported when it is probable that loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported ("IBNR").

Changes in the balance of claims payable for the three years ended December 31, 2009 are as follows:

	Balance Beginning of Year	Current Claims and Changes in Estimates	Claims Payments	Balance End of Year
2009	$ 250,000	$ 2,627,082	$ 2,689,082	$ 188,000
2008	396,000	2,411,910	2,557,910	250,000

CITY OF FRANKLIN

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
December 31, 2009

PUBLIC WORKS EMPLOYEES PENSION PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Actuarial Accrued Liability (AAL) - Aggregate	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2009	$ 4,358,231	$ 4,468,413	$ 110,182	98%	$ 1,521,581	7%
1/1/2008	3,829,158	3,945,469	116,311	97%	1,358,310	9%
1/1/2007	3,530,385	3,663,543	133,158	96%	1,256,564	11%

CITY OF FRANKLIN POST EMPLOYMENT BENEFITS TRUST
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(A) Actuarial Asset Value	(B) Actuarial Accrued Liability (AAL) Projected unit credit	(C) Unfunded AAL (UAAL) [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) UAAL as Percentage of Covered Payroll [(C)/(E)]
1/1/2009	$ 580,028	$ 5,989,535	$ 5,409,507	10%	$ 12,137,498	45%
1/1/2008	-	7,972,327	7,972,327	0%	11,725,456	68%

Note: the Trust was not yet in effect when the first actuarial valuation was completed.

The study dated January 1, 2008 was the study prepared for the adoption of GASB #45.